

## Message Text

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PAGE 01 STATE 069147  
ORIGIN AF-04

INFO OCT-01 ISO-00 SSO-00 /005 R

66011

DRAFTED BY AF/C:GHAMILTON:MJT

APPROVED BY AF/C:TRBUCHANAN

-----290524Z 018528 /17

O 290438Z MAR 77

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA IMMEDIATE

C O N F I D E N T I A L STATE 069147

FOL RPT KINSHASA 2515 ACTION SECSTATE INFO BRUSSELS LONDON  
PARIS LUSAKA PRETORIA DATED 21 MAR 77

QUOTE

C O N F I D E N T I A L KINSHASA 2515

E.O. 11652: GDS

TAGS: EGEN MOPS, PFOR, PFIN

SUBJ: -- POSSIBLE EFFECTS ON THE ECONOMY SHABA INVASION

1. SUMMARY: THE INVASION OF SHABA PROVINCE RAISES THE POSSIBILITY OF ECONOMIC DISRUPTIONS THAT WOULD SERIOUSLY UNDERMINE THE STRENGTH OF THE GOZ. DISRUPTIONS OF ECONOMIC LIFE EXPERIENCED SO FAR -- THE REQUISITION OF SCARCE TRUCKS, RAIL CARS, AND FUEL SUPPLIES FOR MILITARY USE -- HAVE NOT YET HAD A SIGNIFICANT IMPACT ON PRODUCTION. HOWEVER, IF THE PRESENT INSURGENCY CONTINUES, PRODUCTION AND EXPORTS WOULD EVENTUALLY FALL SUBSTANTIALLY. IF THE MINERAL EXPORTS OF THE SHABA COPPER BELT WERE COMPLETELY INTERRUPTED, THE GOZ WOULD BE DENIED OVER SEVENTY PERCENT OF ITS NORMAL EXPORT RECIEPTS. SPECIAL PAYMENT MECHANISMS WOULD INITIALLY CUSHION THIS EFFECT FOR SEVERAL WEEKS OR POSSIBLY MONTHS, BUT IF THE INTERRUPTION WERE SUSTAINED, THE GOZ WOULD FIND IT DIFFICULT TO SURVIVE WITHOUT MASSIVE EXTERNAL FINANCIAL HELP. END SUMMARY.

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2. THE INCURSION BY FORCES IDENTIFIED AS KATANGAN GENDARMES INTO SOUTHWESTERN SHABA HAS LED THE GOZ TO COMMANDEER TRUCKS, RAIL CARS, AND JET FUEL STOCKS IN SHABA FOR USE IN THE MOVEMENT OF TROOPS AND MILITARY SUPPLIES. ACCORDING TO OUR CONSULATE IN LUBUMBASHI, THESE ACTIONS HAVE NOT YET RESULTED IN ANY SUBSTANTIAL CUT IN THE PRODUCTION OF GECAMINES, THE NATION'S LARGEST COPPER

PRODUCER. WE EXPECT THAT THE SAME PROBABLY HOLDS TRUE FOR OTHER IMPORTANT MINERAL PRODUCERS IN THE COPPER BELT EXCEPT FOR SMK, THE MANGANESE PRODUCER IN KISENGE, WHICH HAS FALLEN TO INVADING FORCES.

SMK, HOWEVER, HAS BEEN OF MARGINAL ECONOMIC IMPORTANCE SINCE THE CLOSURE OF THE BENGUELA RAILROAD IN 1975.

3. HOWEVER, IF THE PRESENT INSURGENCY CONTINUES, IMPORTANT ECONOMIC DISLOCATIONS WILL CERTAINLY BE FELT. OVER THE PAST TWO YEARS, MINERAL PRODUCTION IN THE COPPER BELT (ROUGHLY THE AREA FROM KOLWEZI - LIKASI - LUBUMBASHI) HAS BEEN HINDERED BY SHORT FUEL SUPPLIES AND INADEQUATE TRANSPORT LINKS TO THE EXTERIOR. CONTINUED MILITARY USE OF TRUCKS, RAIL CARS, AND FUEL SUPPLIES NORMALLY USED FOR ECONOMIC PURPOSES WOULD SOON BRING A REDUCTION OF PRODUCTION AND EXPORTS FROM THE COPPER BELT AND ELSEWHERE. FURTHERMORE, WORKER DISCIPLINE AND PRODUCTIVITY WOULD BE DIFFICULT TO MAINTAIN IN THE FACE OF PERSISTENT CONFLICT IN THE NEARBY REGION OF SOUTHWESTERN SHABA.

4. SUSTAINED CONFLICT IN SOUTHWESTERN SHABA WOULD DENY THE GOZ THE OPPORTUNITY TO ATTAIN THE BUDGETARY AND BALANCE OF PAYMENTS TARGETS THE IMF CONSIDERS NECESSARY FOR THE STABILIZATION OF THE ECONOMY. WITH THE ATTENTION OF KEY GOZ DECISION-MAKERS RIVETED ON THE MILITARY SITUATION, WE CANNOT EXPECT GOZ OFFICIALS TO GIVE THE IMF STABILIZATION MEASURES THE ATTENTION NEEDED FOR EFFECTIVE IMPLEMENTATION.

5. SHOULD THE CONFLICT BRING A CESSATION OF ECONOMIC ACTIVITY  
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OR THE LOSS OF THE COPPER BELT TO THE GOZ, THE GOZ WOULD BE DENIED ITS PRIMARY SOURCE OF FOREIGN EXCHANGE. COPPER BELT MINERAL EXPORTS AMOUNTED TO JUST OVER ONE BILLION DOLLARS -- ABOUT SEVENTY-ONE PERCENT OF TOTAL EXPORTS -- IN 1974, THE LAST YEAR FOR WHICH COMPLETE STATISTICS ARE AVAILABLE. THE BREAKDOWN OF THESE REVENUES WAS AS FOLLOWS:

COPPER \$934 MILLION

COBALT \$68 MILLION

ZINC \$22 MILLION

OF THESE RECEIPTS, ABOUT \$952 MILLION WAS GENERATED BY GECAMINES. IN 1976, ZAIRE'S DEPENDENCE ON THE COPPER BELT REMAINED SUBSTANTIAL. WE ESTIMATE THAT EXPORTS OF COPPER, COBALT AND ZINC FROM THE SHABA COPPER BELT PROBABLY CAME TO AROUND DOLLARS SEVEN HUNDRED FIFTY MILLION, OR OVER SEVENTY PERCENT OF THE TOTAL EXPORT EARNINGS OF BETWEEN DOLLARS ONE TO ONE POINT ONE BILLION.

6. SPECIAL PAYMENT MECHANISMS COULD INITIALLY CUSHION THE EFFECT ON THE GOZ OF AN INTERRUPTION OF COPPER BELT EXPORTS. SGB, THE BELGIAN HOLDING COMPANY WHOSE SUBSIDIARY, SGM, HAS PRIMARY RESPONSIBILITY FOR MARKETING GECAMINES PRODUCTION, LOANS ZAIRE SEVENTY PERCENT OF THE AVERAGE LME PRICE FOR THE PREVIOUS THREE MONTHS AT THE MOMENT OF EMBARCATION AT AN AFRICA PORT. THE REMAINING THIRTY PERCENT IS PAID WHEN THE COPPER IS SOLD BY SGM. AT ANY GIVEN MOMENT, THERE WOULD PROBABLY BE SIX TO

EIGHT WEEKS OF COPPER "IN THE PIPELINE", EITHER ON THE VOIE NATIONALE OR ON THE SOUTHERN ROUTE. IN THE EVENT OF AN INTERRUPTION, THE GOZ COULD PROBABLY EXPECT PAYMENT FROM SGM FOR THESE SHIPMENTS AND THUS MAINTAIN ITS NORMAL FOREIGN EXCHANGE INFLOWS FOR ABOUT TWO MONTHS. SHOULD THE INTERRUPTION OF PRODUCTION LAST BEYOND TWO MONTHS, THE GOZ WOULD FIND IT VERY DIFFICULT TO SURVIVE WITHOUT MASSIVE EXTERNAL FINANCIAL HELP. CUTLER UNQUOTE CHRISTOPHER  
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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009